

\$40.00 ANNUALLY
40 Letters Per Year

Dow Theory Letters

"The Market as Interpreted under the Dow Theory"

RICHARD RUSSELL
125 East 93rd Street
New York City 28

Registered with the Securities and Exchange Commission

Copyright 1959 - Richard Russell

April 22, 1959

Number 63

Page 1

A "LINE" IS BROKEN AND THE RAILS CONFIRM. Last week was an important one for Dow Theorists; it climaxed three months of waiting. On Tuesday (April 14) the rails penetrated the upper limits of the "line" which had been in effect since February 25 (see Letter 62). On Thursday industrials followed the rails through the upper line limits with a decisive jump of 5.08 points; this meant that both averages had broken the long line top-side. On that same Thursday, rails finally rallied over their January highs of 167.38 (A on chart), and the long awaited rail confirmation was an accomplished fact. Thus, during the three-day period: (1) the line was broken topside by both averages; (2) Industrials went to a new all-time high; (3) Rails confirmed the industrial advance by bettering their own three-month-old high. This series of events confirms all the bullish inferences which we have drawn since the first buy-spots appeared last February at points F and H.

Since the last decline low (at P), we have had six days of advancing prices with industrials spurting almost twenty points. Volume increased on each of these days, but on no single day did that volume reach as much as 4 million shares. This low volume shows definite caution in the face of a bullish pattern in the averages, and the stage could be set for a rather impressive advance during the period directly ahead.

CONFIRMATION STILL IMPORTANT? Readers may remember that last January, I did not care for the price movements and recommended some selling for traders who wanted "insurance" against a possible reaction. Those who took profits near point A had a chance, on the first buy-spots at F and H, to repurchase stocks at slightly lower prices. Point P was recently referred to as a buy-spot, but during the entire period since January, I was careful to state that a final rail confirmation through point A was needed in order to verify the correctness of purchases made on any buy-spots. Now the interesting thing is that the reader who sold at A could have waited three months, then bought on the last buy-spot at P and not been badly off. P represents the last decline and the last buy-spot prior to the rail confirmation. How well did industrials fare without a rail confirmation during the period from January to April? Readers may be surprised to know that the point differential between the January industrial highs at A and the last decline before confirmation at P is a mere 7.84. In other words, after three months of industrial action (unconfirmed by rails), the industrials literally "went nowhere." Hamilton once remarked: "The indications of a single average can, and often do, look seductively like the real thing, as I have discovered to my cost....."

That the two averages must confirm each other is a law of the price movements, and all our arguing and complaining cannot change it. During the 62 year history of the averages, there has only once been a period where the two averages diverged for long. This was during the World War I period when the government took over the rails. At that time the government guaranteed rail dividends and the carriers acted like bonds, fluctuating with the money market.

181.23. Many of the early readers of these letters would be the first to admit that they did not think it could happen - yet the rails are now only 13 points from their 1956 highs of 181.23. If they better that figure they will have verified a long-standing prediction made in these Letters--that before this bull market tops out rails will better their 1956 mark.

I would like to have a dollar for every note I have received during the last 8 months which presented logically and clearly the reasons why this could never happen. But here we are, after three months of consolidation and accumulation, with rails breaking a long line top-side and approaching their lofty bull market peaks.

WHAT WILL A BETTERING OF 181.23 MEAN? If rails better their 1956 highs the averages will be saying: (1) that we have been in a bull market since 1949, and that the 1957 collapse was a reaction in a primary bull market; (2) that the advance since October, 1957, was part of the third and last phase of the longest bull market in history, and not the first phase of a new bull market; (3) that based on past evidence, the final confirmation of previous highs established years ago (in this case 1956 for rails) is probably a sign of a maturing bull market. Certainly the validity of a belated rail confirmation (which should have occurred last September when industrials bettered their own 1956 highs of 521.05) cannot be called an important bull signal; (4) that one technical factor which Dow Theorists could depend on will no longer exist. This factor is that the present bull market will not top out until rails finally confirm their 1956 highs by at least 1¢. There has always been a final confirmation or bull signal in every comparable bull market, even if it is only 8¢, as it was on the rail average in 1946.

STOCKS. I have often stated that each bullish signal in a maturing bull market carries increasingly less validity. Therefore, despite the recent breaking of the line, despite the new all-time highs in industrials and new highs since 1956 in rails, last week's bullish signal does not carry the validity that this type of signal might have carried if it were given, say, in 1954 or even 1957. By the same token, recommendations of individual stocks are not as valid now as they might have been if made during the first or second phase of this bull market. As explained before, I believe stocks are fully valued or even over valued at this time. Purchases can only be made on the assumption that a climactic third phase boom will drive today's "values" to unprecedented heights. This assumption is one which no Dow Theorist can sneer at, but it does not constitute the best reason for taking new positions in common stocks. Any suggestions in these Letters regarding new commitments should be taken with the above thoughts firmly in mind.

Some stocks that look good on my charts are FREU-HAUF TRAILER, ST. REGIS PAPER, CHRYSLER, DOW CHEMICAL. Letter 62 mentioned that after 5 months of backing up and consolidating, oils appeared ready to move. The recent action of this group confirms this opinion, and I like STANDARD OIL of N. J., ROYAL DUTCH, ATLANTIC REFINING, PHILLIPS PET. (written 4/20/59 - 3 p.m.)

